Ajax Fiori Engineering (India) Private Limited

May 18, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	15.00	15.00	[ICRA]AA (Stable); upgraded from [ICRA]AA-(positive)
Term Loan	0.00	50.00	[ICRA]AA (Stable); from [ICRA]AA-(positive)
Unallocated	1.14	1.14	[ICRA]AA (Stable); upgraded from [ICRA]AA-(positive)
Non-Fund Based	5.32	5.32	[ICRA]A1+; reaffirmed
Total	**21.46**	**71.46**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus) for the Rs. 66.14-crore (revised from Rs. 16.14 crore) fund-based facilities of Ajax Fiori Engineering (India) Private Limited (AFEPL, the company). ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 5.32-crore non-fund based limits of the company. The outlook on the long-term rating is revised from positive to 'Stable'.

Rationale

The upgrade in the long-term rating reflects the robust growth in the operating income, accompanied with an improvement in profit margins in FY2017 and FY2018. The rating continues to take into account AFEPL's long standing presence, the rich experience of its promoters and the strong reputation it enjoys in the domestic construction equipment industry. AFEPL enjoys benefits of an established market position in the industry and a strong brand, allowing it to translate the demand revival in the construction equipment industry to a significant growth in turnover and profit margins. The ratings also favourably factor in the company's strong financial profile characterised by substantial liquid investments, low debt and robust coverage indicators in addition to undrawn credit lines. The company is capable of funding its planned growth and related capital expenditure, without significantly leveraging its balance sheet. These apart, the ratings continue to draw comfort from AFEPL's strong in-house capabilities and its extensive procurement and distribution network. The demand prospects for the concreting equipment industry are likely to remain favourable in the medium term, given the Central and various state governments' focus on infrastructure development, resulting in a pick-up in road construction and irrigation projects.

The ratings, however, continue to be constrained by AFEPL's dependence on a few product lines. The company made a substantial dividend pay-out in FY2017, the proceeds of which were utilised by the promoters to purchase a part of the stake in the company from Fiori SpA. There was a subsequent change in shareholding pattern in FY2018, with Fiori SpA, Italy, selling further stake in AFEPL and in Ajax Engineering Private Limited (AEPL, holding company of Ajax Fiori), which was funded through debt in the books of the holding company. Besides, the strength of the company is tempered by the vulnerability of its revenues to cyclical downturns in the economy, given its dependence on the construction and real estate industry, and the susceptibility of its margins to fluctuations in raw material prices. AFEPL's ability to diversify its product portfolio, achieve greater market penetration and sustain its growth trajectory and profitability, apart from the extent of capex and acquisitions undertaken would be the key rating sensitivities.

Outlook: Stable

The stable outlook reflects ICRA's expectation that AFEPL will continue to benefit from the favourable demand scenario, which will give an impetus to its sales volumes and profitability levels. The outlook may be revised to 'Negative' in case of higher-than-expected financial outflow towards capex/acquisitions or dividend and lower-than-expected cash accruals. The outlook may be revised to 'Positive' in case of significant product diversification and continued strong revenue and margin growth.

Key rating drivers

Credit strengths

Dominant share in the Self Loading Mobile Concrete Mixer (SLCM)- The company has a significant market share among the organised players in the SLCM segment. It has a proven track record in the concrete equipment industry. AFEPL's primary product, SLCM, is extremely popular among players in the construction sector. Its established brand and good product quality ensure repeat orders from existing clients.

Strong revenue growth and margin expansion - The company was able to maintain sales and margins even during the subdued market conditions (CY2012-CY2014), when other MCE players witnessed sharp dip in sales and margins. In FY2017 and FY2018, the company recorded 54% and 49% increase in the operating income, respectively, supported by an increase in sales volumes, on the back of an upswing in concrete equipment demand. Improved economies of scale and indigenous sourcing of critical components have improved the operating profit margin.

Strong financial profile- The company has a strong financial profile, marked by strong profitability indicators and comfortable capital structure—low gearing of 0.12 times, as on March 31, 2018. The management was conservative in its borrowings in the past, evident from the consistently low leveraging of the company. Moreover, the company has high cash and liquid investments, amounting to Rs. 260 crore as on March 31, 2018.

Credit challenges

High product concentration - The company's product range is concentrated; with SLCM contributing the dominant revenue share. Nevertheless, the new facility for manufacturing batching plants and the proposed new product launches are expected to mitigate product concentration risks to an extent. The company also plans to expand by making inorganic acquisitions. Thus, the company is exposed to significant execution risks.

Vulnerability of profitability to cyclicality in construction sector - The company is vulnerable to cyclical downturn in the economy. The sales of the company are predominantly to the construction sector, which in turn is dependent on the government infrastructure spend and capex from the private sector. However, healthy orderbook for contracting firms on the back of higher infrastructure spend in roadways, irrigation and railway is expected to result in continued strong growth for the company over the near to medium term.

High dividend outflows and change in shareholding pattern –A substantial dividend pay-out was made by the company in FY2017. The proceeds were utilised by the promoters to purchase a part of the stake in the company from Fiori SpA. In FY2018, there was a subsequent change in shareholding pattern with Fiori SpA, Italy, selling further stake in AFEPL and in AEPL. It was funded through debt in the books of the holding company. AFEPL and the holding company are proposed to be merged in the near term, and post the merger, the liquidity available with AFEPL will be utilised to repay the outstanding debt on AEPL.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Rating methodology for construction equipment manufacturers]

About the company

Ajax Fiori Engineering (India) Private Limited, located in Bangalore, manufactures a wide range of equipment for the construction industry. The company manufactures a line of products in the construction equipment domain including self-loading mobile concrete mixers, pan mixers, radius lift arm batching plants, site dumpers, bin type concrete batching plants and transit mixers. AFEPL's machinery is used for concreting operations, in roads and bridges project, building construction, canal lining, dam and other infrastructure construction projects, to name a few. Over the years, AEFPL has developed strong in-house manufacturing capabilities, supported by tie-ups with several foreign construction equipment companies such as Eurostar Italy, ORU and Fiori SpA. and Junjin S. Korea. There was a change in the shareholding pattern of the company in May 2017; and subsequently in March 2018, the promoters of the company purchased the entire stake held by Fiori SpA, Italy.

Key financial indicators

	FY2017	FY2018*
PAT (Rs. crore)	118.49	182.26
OPBDIT/OI (%)	24.90%	27.57%
RoCE (%)	99.80%	110.56%
Total Debt/TNW (times)	0.07	0.12
Total Debt/OPBDIT (times)	0.06	0.15
Interest coverage (times)	310.59	182.77
NWC/OI (%)	1.76%	1.82%

*Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating in FY2019 May 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 September 2017	Date & Rating in FY2017 September 2016	Date & Rating in FY2016 July 2015
1	Cash Credit	Long Term	15.00	-	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Stable)**
2	Term Loan	Long Term	50.00	36.67	**[ICRA]AA (Stable)**	**-**	**-**	**-**
3	Unallocated	Long Term	1.14	-	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Stable)**
4	Non-Fund Based Limits	Short Term	5.32	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	15.00	[ICRA]AA (Stable)
NA	Term Loan	September 2017	8.45%	September 2022	50.00	[ICRA]AA (Stable)
NA	Unallocated	-	-	-	1.14	[ICRA]AA (Stable)
NA	Non-Fund-Based	-	-	-	5.32	[ICRA]A1+

Source: Ajax Fiori Engineering (India) Private Limited

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About ICRA Limited:

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